Strategic Facilities Planning as a Component of the Business Plan

by Sharon K. Mount

An effective strategic facility plan can help a company reach its financial performance and productivity goals by integrating near- and long-term facility planning with the organization’s business plan.

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In today’s world of aggressive competition and pressures for cost containment, it is imperative that the right facilities in terms of size, cost and location be available to support a company’s business objectives. For a company to reach its financial performance and productivity goals, there must not be overinvestment in facilities, excessive occupancy costs or the wrong or inflexible facilities.

Further, the right facilities must be on-line at the right time. In this context, it follows that strategic facilities planning (SFP) is a business planning activity. The process integrates a company’s business plan with its plan for the short- and long-term acquisition and disposition of facilities.

Here are four points to keep in mind in approaching the SFP process:

--- Facility planning not only stems from, but also must contribute to the development of corporate strategic plans related to marketing, financial, organizational, human resources and production issues.

--- Senior management must be actively involved — setting policy, reviewing findings and making decisions.

--- The company’s business plan and historical performance data are invaluable sources of information to the long-range facilities planner.

--- The facility plan must be tested against and integrated into the company’s business plan to become an SFP.

In developing an SFP, a broad array of facilities issues are exposed and analyzed in order to address the specific needs of the company. The following are among those facilities issues:

--- location, relocation and consolidation;

--- facilities acquisition, utilization, and disposal;

--- fixed-vs.-variable cost and productivity;

--- capital appropriations budgeting;

--- leasing-vs.-ownership policy and other balance sheet aspects;

--- acquisition policies and development of models and procedures; and

--- space requirements and standards.

This approach to facilities planning is strategic in that it is carried out in confidence with senior management; it recognizes and responds to long-term marketing or growth objectives of the company; and it is comprehensive in its review of the relationship between business and facilities issues. SFP also allows companies to investigate various options regarding their real estate and facilities investments without commitment or public breach.

Facilities requirements are often found to be driven by market, financial, operational, human resources and production criteria, which are displayed in the company’s business plan. An analysis of the criteria, together with an objective understanding of existing and future facilities issues, can help to quantify and qualify the company’s facilities requirements to correlate with its short- and long-term business projections.

With this background, let’s review an approach to strategic facilities planning:

--- the team (who is involved);

--- the components (what is addressed and included);

--- the process (how it should be done);

--- the products (what are the resultant “deliverables”); and

--- the benefits (why undertake SFP).

The Team

An SFP team will consist of four groups of people working as a team, with various specific responsibilities, as shown below.

--- The steering committee = CEO, COO and executive committee, who are responsible for setting policy, reviewing findings and making decisions.

--- The nucleus = senior management representative, coordinator and facility management representatives. The coordinator, who is responsible for day-to-day coordination of the process, serves as catalyst and guide to the total team. The senior management representative serves as a conduit and coordinator to the steering committee. The facility management representative is a conduit and coordinator to the working committee and information resources.

--- The working committee = management-level representatives from major segments of the organization, such as marketing, human resources, finance/strategic planning, production and real estate. The working committee focuses on information (concep-
The Process

Depending on the size of the company and the number of facilities involved, the SFP process can take from three to six months or more to complete. The more supportive senior management is and the more accessible the resources and data are within the company, the more quickly this process can be completed.

The steps for developing an SFP are by no means sacrosanct. Certain steps may vary slightly from company to company, depending on whether the company primarily uses office space or is a large manufacturer requiring significant quantities of office, manufacturing, research and development (R&D) and warehouse facilities. Other variations in the SFP process may occur as a result of the different company “cultures” (i.e., an established, formal, hierarchical organization vs. a new, entrepreneurial, informal organization).

The SFP process passes through five phases: project launch, data gathering and analysis, developing options, cost-model comparisons and adoption and monitoring of the strategic facilities plan. These phases may be divided into a series of 17 definitive steps, which are described below.

Step One: Launching the SFP Process: The primary objective of the launching phase is to map out the process for developing an SFP for those who will directly participate in the plan, and to obtain their consensus on both the process and the schedule prior to releasing this information to the rest of the organization.

Step Two: Orientation/Kick-Off Session: The purpose of this session is to introduce the SFP coordinator, as well as the SFP process and schedule (as confirmed in step one), to all of the members of the SFP team and to the department heads who in step one were identified as the company’s information resources. The session should cover the detailed schedule of activities, the rationale for performing specific tasks, team members’ responsibilities, and plans for utilizing the end results of each phase.

Step Three: Establish the Basic Business Statement/Plans: This is one of the most important steps in the SFP process, in that the business statement and plans revealed in this step will become the “yardstick” by which all of the detailed data gathered (in step four) will subsequently be measured and evaluated. This step will usually consist of one or more work sessions with the CEO and other division managers or executive staff selected by the CEO to include in the process. If possible, these sessions should include a review of the present adopted business plan. If unavailable or proprietary, a distillation of the plan should still be obtained.

Step Four: Detailed Data Gathering: Steps four and five focus on gathering, compiling and analyzing historical (five years) data and current information on the following areas:

a. market
b. financial
c. organizational
d. human resources
e. existing facilities
f. facility costs
g. functional and space program
h. real estate and
i. product/plant services (for a manufacturer only).

During data analysis, the team ascertains factors which quantify relationships between the data that, ultimately, define facility requirements. The most simplistic example might be:

— Over the past five years, when comparing total revenues with total personnel, we identify a pattern of dollars spent per person. Over the same period of time, we can relate total square footage to total number of personnel to
**Step Five: Develop Scenarios:**
Based on the knowledge of the existing facilities and the company’s organizational structure and adjacency requirements gained in step four, it will now be possible to develop preliminary scenarios for the accommodation of long-term growth (i.e., consolidation, non-consolidation, rational fragmentation, etc.).

Preliminary analysis of the data gathered in step four will enable extrapolations of personnel growth. To establish the overall space needs, the SFP coordinator will need to recommend the adoption of square-foot-per-person planning guidelines that reflect both the company’s functional needs and industry standards for efficiency. Application of these guidelines will determine the office (or production) space requirements which, when combined with relevant support-space requirements, will yield an extrapolation of total long-term space requirements.

**Step Six: Establish SFP Options:**
In this step, the analysis and scenarios of step five are reviewed with the SFP team. Jointly, the team will establish a short list of options for review by the steering committee.

**Step Seven: Confirm SFP Options:**
The SFP coordinator should present to the steering committee for review the preliminary distillation of data, data extrapolations (10-year projections) and analysis, along with preliminary findings on those quantifiable business-planning factors that are believed to drive the company’s facilities requirements.

Driving factors would typically be distilled to show: dollars per person per year (assuming alternative productivity increases each year) and square footage lump sums for office space — as well as manufacturing, R&D and warehouse space, if applicable. Manufacturing facility size would typically be determined by the number of units produced per square foot. Warehouse space would be determined by the number of turnovers of inventory and the company’s philosophy regarding inventory management.

The SFP coordinator should receive feedback from the steering committee on the options presented, along with specific directions on the following issues:

- a. Policy on leasing vs. ownership, by facility type and by location,
- b. Policy/preferences on financing methods of owned facilities,
- c. Policy/objectives for accounting and tax treatment of facility costs,
- d. The “non-functional” business roles of the facilities (i.e., with regard to qualitative issues such as image and work environment) and
- e. The basic real estate attitude.

**Step Eight: Develop Provisional SFP Game Plans:**
The SFP coordinator will develop provisional strategic facilities game plans in chart and narrative form. These plans will be categorized by facility and include geographic annotations. (In cases where availability of viable sites or buildings is limited, it may be necessary to identify actual buildings to plug into the SFP game plans.)

**Step Nine: Cost and Financial Analysis:**
This step represents the most important product of the SFP process for many companies. Establishing comparative costs for various SFP options is a prerequisite to decision-making for many companies. This effort will typically be a joint development of the SFP coordinator, who will supply the cost-comparison methodology and initial cost estimates, and the company’s financial analyst, who will analyze the initial cost estimates in terms of the company’s unique investment appraisal and accounting techniques. The final cost estimates for each option will be based upon the financial analyst’s recommendations.

**Step 10: Senior Management Review:**
The near- and long-term facilities cost and financing plan is presented for adoption by the CEO and steering committee.

**Step 11: Develop Adopted SFP Game Plan:**
Based on feedback from step 10, the adopted SFP game plan should be developed in further detail, including:

- a. Refine historical data and estimates on total facility costs to meet game plan. To do this, identify the relationship between the cost of facility units and driving factors by (1) facility categories and geographic regions/locations and (2) cost and availability of capital.
- b. Develop provisional models (i.e., project initiation and funding approval, property disposal and facility acquisition) for implementation of the game plan by facility categories and by regions/locations.

**Step 12: Final Senior Management Review:**
The SFP coordinator should revisit the steering committee and come to closure on steps 9, 10 and 11, including related cost issues such as consolidation, shipping, turnover and real asset management.

**Steps 13-16:** These steps encompass the process of drafting, reviewing and
refining the SFP documentation, including final review and acceptance by senior management and publication/dissemination of the results.

**Step 17: Implementation/Monitoring the SFP:** A critical factor in the success of an SFP is whether procedures for monitoring and adjusting the SFP are established within a company. Just as an annual business plan is revised on a quarterly basis, so should the SFP be reviewed periodically.

**Products of the SFP Study**
The completed SFP document comprises a ready reference for general, line and facilities managers. The format of the SFP document should encourage regular updating so that it can respond as business plans evolve. Some or all of the following products may be included in the final SFP document:

- executive summary;
- analysis and array of the “driving factors”;
- statement of other facility design/location criteria;
- facilities monitoring system (this is an ongoing system for monitoring facilities needs and for showing quarterly, or as needed, the relationships between driving factors and facility space and cost requirements);
- strategic facilities game plan (the game plan consists of charts set on a timeline of five-to-10 years. These charts will be detailed, representing square-footage-per-person by facility type, different driving factors per company, etc.; the charts will be accompanied by a narrative describing the specific actions which are required at each facility transition or during the introduction of new products/services — driving factors);
- facilities information database;
- facilities financial plan (10-year capital budgets);
- facilities funding, acquisition and disposal models;
- review of real asset policy; and
- checklist for related business planning activities.

**The Benefits**
As noted earlier, in today’s economic environment, it is even more imperative that the right facilities — in terms of size, cost and location — be available to support a company’s business objectives. One way for the real estate and facilities organization within a company to contribute to a more positive bottom line is to establish and monitor a strategic facilities plan.

There are two types of benefits derived from the SFP process. The more obvious benefits are the acquisition of data and the development of a system for reacting to longer-term facilities needs. Whether your organization is large or small, an SFP should help you to:

- correlate and integrate business and facility planning;
- position facilities to complement and enhance financial performance;
- establish proactive management practices which help ensure appropriate, on-time, within-budget facilities; and
- avoid unwarranted investment in facilities and operating costs.

The less obvious type of benefits are a by-product of the process itself — the establishment (or enhancement) of communications channels between key components of an organization. Although in theory these channels exist and are utilized in business planning, it seems that the context of facilities planning is less “threatening” and more conducive to cooperative, informative dialogue and the establishment or enhancement of rapport between organizational units.

**Suggested Reading**


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